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ABSTRACT

Many states have found that financing public schools through local property taxes is unlawful under their state constitutions; as a result, they must consider using state tax revenue as the primary source of local school-district funding. The recent California experience provides a sample of political economic behaviors used to respond to the limitations of full-state funding. For example, Proposition 98 enacted a minimum funding formula to safeguard public school revenues, but the cases of "CTA v. Hayes" and "CTA v. Gould" demonstrate that a formula approach may be neither effective nor efficient. This paper examines legal cases to gain insight into political economic behavior and risks to public education from full- or nearly full-state funding. The first section provides a brief background on legislation and litigation related to nearly full-state funding in California. Downs' theory of political-economic behavior, a potential theoretical explanation, is presented in the second section. The third section describes risks associated with full- or nearly full-state funding, such as funding uncertainty, a decline in per-pupil expenditures, competition for funding, funding the minimum only, legislative inaction, a tax cut, and loss of local control. Recommendations are made in regard to designing a minimum-funding formula, establishing a reserve fund, and developing accountability measures. The following conclusions about California's recent experience with full-state funding are drawn: (1) State tax revenue is perceived as an unstable source of school-finance funding; (2) minimum funding formulas are complicated to design and may be ineffective and inefficient in a state political environment; and (3) full-state funding of public schools will result in apparent and actual loss of local control over school operations. (Contains 13 references.) (LMI)

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Full State Funding:
The Risks for Public Education

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Full State Funding: The Risks for Public Education

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INTRODUCTION

Many states have found that financing public school through local property tax to be unlawful under their state constitutions, and as a result, must consider using state tax revenue as the primary source of local school district funding. Increasing state funding of local school districts to a substantial percentage is similar to the acquisition of a major financial interest by a larger financial institution in a chain of smaller institutions. In such cases, the smaller institutions must be prepared to deal with the financial and political power of a large stakeholder. Similarly, when the state role in funding public education becomes dominant, the questions of political risks and consequences become important issues to the system of public education as well as to each local school district.

The recent California experience provides a sample of political economic behaviors used to respond to the limitations of full state funding. In particular, a voter initiative, Proposition 98, enacted a minimum funding formula to safeguard public school revenues, but the cases of *CTA v. Hayes*, and *CTA v. Gould*, demonstrate how a formula approach may be neither effective nor efficient.

This paper examines legal cases to gain insight into political economic behavior and risks to public education from full or nearly full state funding. The section "California Experience" provides a brief background on legislation and litigation related to nearly full state funding in California. A more complete history can be found in Picus (1991). Downs' theory of political economic behavior, as a potential theoretical explanation, is presented in the following section, "Political Economic Behavior." The risks culled from the legal cases are described in the section "Risks." "Recommendations" provides some suggestions regarding minimum funding. The public finance question of whether full state funding results in higher or lower per pupil expenditure is not considered. Several papers, e.g., Fischel (1989) and Silva & Sonstelie (1994), have examined the related issue of the impact of court mandated equalization on school spending levels.

CALIFORNIA EXPERIENCE

SERRANO V. PRIEST

Due to the inability of poor school districts to provide per pupil expenditures levels comparable to wealthy school districts, the California Supreme Court in *Serrano v. Priest*, 5 Cal.3d 584 (1971) ("*Serrano I*") held that there was sufficient grounds to find that the state school finance system violated the state constitution guaranteeing equal protection under the law. The legislative remedy was a plan to level up the revenues in the poor districts. In *Serrano v. Priest*, 18 Cal.3d 728 (1976) ("*Serrano II*") the court disapproved of the state's efforts and ordered the state legislature to reduce the disparity to less than $100 per pupil within six years.

Before *Serrano I*, district funding was based on property tax and state aid through a combined flat grant and foundation program. The 1977 remedy adopted by the state legislature in response to *Serrano II* was to impose a severe revenue ceiling on the wealthy districts to level down their per pupil funding. This was combined with aid to the poor districts to raise per pupil spending from the lower end.

PROPOSITION 13

The year after the revenue limit solution was approved, a voter initiative, Proposition 13, was passed to amend the state constitution to limit the taxing powers of the state and local governments. The effect was to drastically level down tax revenues from property taxes statewide, and effectively eliminate the property tax as a major source of revenue to the state and local governments, including school districts.

Proposition 13 consisted of four major provisions. (1) The maximum amount of any ad valorem tax on real property was limited to one percent (1%) of the full cash value of the property. The one percent (1%) tax was collected by the counties and apportioned "according to law" to the districts within the counties. (2) The full cash value was defined as the County Assessor valuation of real property as shown on the 1975-1976 tax bill, and could be adjusted by no more than two percent (2%) each year for inflation. (3) Any changes in state taxes for the purpose of increasing revenues collected had to be approved by no less than two-thirds vote of legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property could be imposed. (4) Cities, counties and special districts could impose special taxes, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property, by a two-thirds vote of the qualified voters. See California Constitution, Article XIII A.

The effect of this law is to cap all property tax revenue to a limit of 1% of 1975-1976 assessed values, subject to annual adjustments for inflation. This severely limited the ability of all local governments, including school districts, to finance their operations from property tax revenue.

The case *Amador Valley Joint Union High School District v. State Board of Equalization*, 22 Cal.3d 208 (1978), unsuccessfully challenged the validity of Proposition 13 on several grounds. It raised political concerns about the loss of "home rule," i.e., "the ability of local governments to control and finance local affairs without undue interference

by the Legislature" (pp. 224-225). The language of Proposition 13 provided the legislature with "the power to allocate to local governmental agencies the revenues derived from real property taxation" (p. 225). The court found that pre-Proposition 13 law posed the same degree of potential legislative interference. The court upheld Proposition 13, citing in its conclusion that it had a "solemn duty" to "jealously guard" the initiative power, and that "if doubts reasonably can be resolved in favor of the use of the initiative" it should do so. (p. 248).

The California school districts, unable to raise sufficient operating revenue on their own, had to turn to the state for assistance. They were fortunate that at the time Proposition 13 was passed, the state had a large reserve, which was soon depleted to provide aid to the public schools.

PROPOSITION 98

In 1988, California voters approved Proposition 98, an initiative entitled "The Classroom Instructional Improvement and Accountability Act." Despite the title, the real purpose of Proposition 98, according to the California Teachers Association Opening Brief in *California Teachers Association v. Gould*, Sacramento Superior Court No. 373415 (1994) "was to ensure stability in school funding....[and to take] school financing out of politics...." (p. 2-3).

Proposition 98 consisted of two tests to determine a guaranteed minimum funding level for public education. In 1990, the voters passed another initiative, Proposition 111, to add a third test.

Test 1 (minimum percentage) guarantees a minimum percent of state revenues by providing that a fiscal year's funding will not be less than forty percent (40%) of the general state revenue for that year. Thus, if the state revenue followed an upward trend, the public schools funding will increase proportionately. But if the state revenue decreases, this test will yield a reduced amount. This percentage is not excessively high compared to other states. Theobald (1994) reports that 48% of the total state budget was allocated to K-12 education in 1994 by the state of Washington, which also adopted full state funding.

Test 2 (minimum amount) guarantees a minimum amount by requiring that a year's funding will not be less than a base level equal to the prior year funding amount adjusted for changes in enrollment and changes in the cost of living. Using this test only, the guaranteed funding will never decrease, i.e., there is a built-in upward ratcheting effect. The upward movement can result from state appropriations to the schools in excess of the guaranteed minimum. As discussed later, this effect serves as a disincentive for the state to fund beyond the guaranteed minimum level. Theoretically, it will be possible for the guaranteed funding to exceed the state's revenues. This scenario is prevented by a third test imposed by Proposition 111.

Test 3 (alternative minimum amount) provides that a fiscal year's funding will not be less than a base amount equal to the prior year funding adjusted upward or downward for changes in enrollment and changes in the state revenue plus 1/2%. This test is applicable in years when the percentage growth in per capita state revenue is less than per capita personal income, otherwise the second test is applicable. Generally, this third test becomes applicable when there is a large drop in state revenues.

4. Suspension. Proposition 98 also permits the state to suspend the guaranteed funding for one year. This provision requires urgency legislation passed by two-thirds vote in both houses of the legislature and signed by the governor.

5. Restoration. If school funding is reduced either by the application of Test 3 or by legislative suspension, Proposition 111 provides a mechanism for the reduced base level and funding to be increased in future years of higher state revenue to the level which would have been attained but for Test 3 or suspension.

CTA V. HAYES

The case *California Teachers Association v. Hayes*, 5 Cal.App.4th 1513 (1992) ("*CTA v. Hayes*"), involved the allocation of Proposition 98 funds to non-public schools to provide services mandated by the state Child Care and Development Services Act. The complaint filed by the state teachers' union alleged that the appropriation violated the clear language of Proposition 98 that the funds "be applied by the state for the support of school districts and community college districts...." (Cal. Const., art. XVI, sec. 8(b)). The court interpreted the language broadly by giving weight to the word "support," and held that "legislative programs which advance, and hence support, the educational mission of school districts and community college districts may constitutionally be included within the funding guarantee of Proposition 98." *CTA v. Hayes*, p.1534. In dictum, the court emphasized that "[e]ducation is a broad and comprehensive matter.... [and that the state] Constitution places a ... broad meaning upon education when it requires the Legislature to 'encourage by all suitable means the promotion of intellectual, scientific, moral, and agricultural improvement.'" *CTA v. Hayes*, p. 1528. This case acknowledges the legislature's power to provide Proposition 98 funding to non-public school programs which "support" the "educational" mission of the school districts.

The funding competition among state agencies was intensified in 1979 when another voter initiative, Proposition 4, amended the California constitution to further limit state finances. It provided that "[r]evenues received by any governmental entity in excess of its appropriations limit must be returned by a revision of tax rates or fee schedules within the next two fiscal years ... [and] also provides that whenever the state mandates a new program or higher level of service upon local governments, it must provide a subvention of funds to reimburse local government for the added cost." *CTA v. Hayes*, p. 1527.

CTA V. GOULD

There are some practical problems in implementing Proposition 98. The actual guaranteed minimum for a fiscal year cannot be computed until the year is over, since the various tests depend on the tax revenue, state personal income, enrollment totals and cost of living statistics for the year. To overcome this problem and not delay funding, the state made appropriations at the beginning of the year based on estimates of the variables' values at the end of the year. The state intended to fund to the Proposition 98 minimum. During the fiscal year 1991-92 California entered a severe economic recession and actual state revenue was considerably below the estimated amount, resulting in an unintended

overfunding of public education in excess of the minimum guaranteed amount. The estimate was computed using the Test 2 minimum amount and the estimated state tax revenue figures, but the decline in revenues resulted in the application of the Test 3 alternative minimum amount and a guaranteed minimum much less than the actual "appropriation."

In order to avoid overfunding and having to count the excess as part of the Proposition 98 base for future years, the state passed legislation which characterized the excess as an "emergency loan" to be repaid from the following year's Proposition 98 funding. In effect, this shifted the year of official appropriation of the excess funding from 1991-92 to 1992-93.

The teachers union, as plaintiff in *California Teachers Association v. Gould*, Sacramento Superior Court No. 373415 (1994) ("*CTA v. Gould*"), challenged this arrangement, claiming that Proposition 98 did not permit an appropriation to be undone and recharacterized as a loan. It claimed that the schools were taking a "double hit," once from the required loan repayment from Proposition 98 funding in 1992-93, and again from the exclusion of the repayment from the Proposition 98 base for future funding. The Attorney General pointed out that this argument conveniently overlooked the excess funds actually received in 1991-92. In effect, the schools were trying to take a "double dip," once by keeping the excess funding in 1991-92, and again, by taking full Proposition 98 funding in 1992-93 by avoiding repayment. The case was settled before the beginning of the 1996-97 fiscal year, so there is no published court opinion.

POLITICAL ECONOMIC BEHAVIOR

This paper uses the political economic perspective developed in Downs (1957) to try to rationalize and explain the behavior found in the development of full state funding in California by analyzing the positions and strategies of political players. Economics, with a means ends perspective, views the politicians as suppliers of policy with the single goal of remaining in office. To do this, policy must be targeted to the median voter. The voters, as consumers of policy, use their power to vote to elect politicians who will supply the policies they demand, and to remove from office the politicians who fail to satisfy the voters.

The politicians include the elected legislative members and the governor. Other players are the non-elected state bureaucrats and special interest groups, such as the state teachers union. Each is considered to be a rational player looking to further its self-interest.

The legislature's response to *Serrano I* was a mild squeezing of district revenues, with as little pain to the wealthy districts as possible, to arrive at equality over several years. This approach is consistent with the desire of the politicians to behave in a manner to satisfy the median voter. *Serrano II* struck down this approach, but the court order allowed the politicians to implement a more severe equalization remedy without directly risking voter alienation.

RISKS

FUNDING UNCERTAINTY

There are several disadvantages to relying on state tax revenues for funding: (1) the uncertainty of yearly state revenue; and (2) the uncertainty of the amount to be apportioned to the public schools. The first problem is caused by the volatility of the state economy, and the second problem is caused by the political competition for state budgetary funding. In effect, the schools must eat at a common trough from which all state programs are funded; it will share in the fluctuating level to which the trough is filled, and it will have to fight other fund hungry programs for its share of the total.

A property tax-based funding system generally avoids these disadvantages, or suffers them to a lesser degree. While local property values may fluctuate, they, and especially their assessed values, will fluctuate much less than the state GDP. And if schools are administered through a self-contained political entity with property taxing powers, such as a school district, separate from other local governments and agencies, the political competition for funds is considerably reduced if not eliminated.

The problem caused by funding volatility is the risk of disrupting educational programs for lack of resources. When the funding is high, old programs may be improved, and new programs initiated. If these programs have to be cutback or discontinued, it may destroy the effectiveness of the program, and the motivation of the participants to commit their time and talent the next time a similar opportunity arises. The students in the programs will receive questionable educational benefits as the structure of the program is altered to accommodate funding restrictions.

DECLINE IN PER PUPIL EXPENDITURES

Serrano II mandated near equality between districts in per pupil funding. The only financially and politically feasible way of accomplishing it was to limit spending and to lower the per pupil expenditure in many districts. This is now evident in the decline in California's per pupil expenditure ranking from 20th in 1976-77 ($1,572 compared to the national average of $1,594) to 34th in 1993-94 ($4,675 compared to the national average of $5,319). National Education Association (1995).

Fischel (1989) has proposed that Proposition 13 was a rational action by the voters in response to the *Serrano II* decision and remedy. Voters, especially the wealthy voters, now viewed the property tax as a "dead weight loss" which did not result in a favorable exchange of taxes for services, especially education. This exchange mechanism, proposed by Tiebot (1956), was in equilibrium prior to *Serrano II*, but after its passage, the terms of exchange worked to the disadvantage of the wealthy voters. This situation led these voters to join a coalition of minority voters, who previously failed to pass property tax limits, to pass Proposition 13. Silva & Sonstelie (1994) make the argument, based on regression estimates of demand functions that *Serrano II* only explains half of the decline in California's per pupil expenditure, and that the other half is attributable to rapid student population growth.

FUNDING COMPETITION: EXPENDITURE SHIFTING

Since the schools after Proposition 98 had secured a major portion of the state revenue trough, a reasonable strategy for any other government service program was to claim that it provided educational services and qualified for the Proposition 98 funding. The result is a reduced portion going directly to the schools. The governor and legislators would be willing to adopt this strategy in order to satisfy the non-school constituents and the voters represented by them.

Competition for funding will be led by agency bureaucrats and interest groups. A prime motive of bureaucrats is to promote their job security, and this provides incentive for them to enter the budget battle to protect the funding for the agency that employs them. Similarly, interest groups will aggressively organize to lobby for continued funding for their target programs.

CTA v. Hayes illustrates an application of this strategy by a coalition of child care and pre-school interest groups to obtain a share of the "education" funds. The court identified the "real parties in interest" as "the California Children's Lobby, the Professional Association of Childhood Educators, the California Association for the Education of Young Children, and the Child Development Administrators Association." (p. 1518).

The competition for funding may not necessarily be planned. When California was struck by several natural disasters, a severe strain was placed on the state resources. For example, when the Loma Prieta earthquake created large economic losses in Northern California, the state suspended the mandated statewide funding to schools.

FUNDING THE MINIMUM ONLY

The state adopted the policy of funding to the minimum amount required by Proposition 98, i.e., the funding minimum became a funding ceiling (Picus, 1991). The rationale for this policy is easily understood as an exercise of prudence to avoid the upward ratcheting effect of Test 2. If the state revenue remains constant, but the state appropriates more than the guaranteed minimum to the schools, it will forever have a fixed obligation at the more generous base. Any extra gift intended as a one-time appropriation to the schools becomes a perpetual gift. One year of funding suspension is possible, but only under difficult political conditions. And if the suspension is obtained, the lost funding base may be restored if the state revenue increases. From a budget perspective, the Proposition 98 never decreasing funding level looked like a deadly fiscal stranglehold.

Because politicians must attempt to supply as many constituents as possible with funded programs, it becomes rational political economic behavior not to overfund the schools to the detriment of other programs. The politicians do not have to justify funding to the minimum amount, since it was mandated by the voters and leaves the politicians without any discretion or blame.

Notwithstanding the preceding argument, the state did fund in excess of the Proposition 98 minimum guarantee in 1992-93 and 1993-94. Due to a severe economic recession, the state revenues had dropped sufficiently to trigger the Test 3 alternative minimum amount that was lower than the prior year funding. This brought the average per pupil expenditure below a politically acceptable level, and the state attempted to fund to

the earlier level by providing extra funds as "emergency loans" to avoid increasing the Test 2 base amount.

LEGISLATIVE INACTION

Because state-level politicians must weigh the election effect of their actions on voters, there will be reluctance on their part to act on measures that have negative or little payoff in terms of vote getting. This may explain why the legislature and governor did not suspend Proposition 98 when they had sufficient warning of the overfunding in 1991-92. (California Teachers Association, 1995). The suspension provision requires political risk by both houses of the legislature as well as the governor. The politicians may have been risk averse, or felt that the two-thirds vote in both houses was not feasible.

Another example of the politicians' reluctance to act in the area of school finance is Proposition 98. The intended purpose of Proposition 98, to stabilize school funding, is a sound objective. However it required a voter initiative to enact it instead of legislative action.

TAX CUT

Soon after California came out of its recession, the governor proposed a tax cut to promote economic growth. A tax cut represents a two-edged sword for the public schools. On the one hand, if the tax cut reduces the state revenues, then under Proposition 98 and the policy of funding to the minimum, the funding for the schools will stagnate and not be able to benefit under Test 1 (minimum percentage of state revenue), or even decline if Test 3 (alternative minimum amount) is triggered. On the other hand, if the tax cut spurs economic growth and government services then tax revenues may grow and cause the value of the schools' proportionate share under Test 1 (minimum percentage) of Proposition 98 to increase.

A tax cut proposal may be politically motivated to please voters who want to see a reduced government, and who expect a return of any excess tax revenues. This certainly seemed to be the will of the California voters in passing Proposition 13 and 4. Under the Proposition 98 formula, this scenario will put school funding in a no-growth position.

LOSS OF LOCAL CONTROL

Under full state funding, the California school districts are no longer in control of their financial destiny, and consequently, probably no longer in control of their educational future. This was the fear expressed by local governments in *Amador Valley Joint Union High School District v. State Board of Equalization*, 22 Cal 3d 208 (1978) in their attempt to challenge the constitutionality of Proposition 13. As a result of *Serrano II* and Proposition 13, school districts have little ability to raise funds outside of the Proposition 98 structure. They have no way of offsetting the loss of revenues if the state decides to enact a tax cut.

The districts also lose control over much of the funds received from the state, because Proposition 98 does not require that the state give the funding to the districts in

an unrestricted lump sum. In fact, much of the funding from the state, as well as the federal government, is in the form of categorical aid that specifies which district-level programs may use the funds. This also happened in Hawaii, another full funding state. Thompson (1980) reported that the Hawaii state legislature, which directly funds the public schools, has micro-managed education programs by threatening to withhold funding.

Since the school district has very little ability to raise funds on its own, it role becomes one of a caretaker and cost cutter. It has financial responsibility, but only partial authority to fulfill its responsibilities. In this role, a district will find it prudent to avoid incurring or increasing long-term liabilities. In particular, the district's largest long-term expense, and one that is really a long-term liability, is teacher salaries. This dilemma will lead to conflict when teachers push for higher salaries and benefits with the renewal of their teaching contract.

This may explain the historically long 1996 teachers' strike in Oakland, California. San Francisco Chronicle (1996a). The Oakland Unified School District had been unable to give raises for several years under the flat funding provided by Proposition 98. It was caught in a zero-sum game in which any increases in one part of the budget would have to be matched by equal decreases in other budget areas. When the teachers insisted on a raise, the school district could only pay for it by cutting non-teaching staff such as administrators and school counselors. Despite the length and bitterness of the strike, the unions gained a small raise, mostly for senior teachers, at the cost of administrative and school counselor jobs. San Francisco Chronicle (1996b).

RECOMMENDATIONS

1. Minimum Funding. If full state funding is used to finance the public schools then some form of guaranteed funding is necessary to stabilize the yearly funding and permit schools to make intermediate and long-term plans. The question is whether the politicians, voters or interest groups, such as teachers unions should introduce the legislation.

Politicians may not be interested in taking the lead in the legislation out of fear of losing favor with their other constituents. The full funding of public education will take up a large part of the state budget. Proposition 98 began with a 40% minimum and was the result of a voter initiative. However, by implementing the minimum funding through legislation, it is possible to amend it by legislation in the future as circumstances change, rather than having to go to the voters for a constitutional change as with Proposition 98 and 111.

Some lessons to be learned from California's experience with Proposition 98 suggest the need for a better design of the minimum funding formula.

(a) Avoid ratcheting. The upward ratcheting provision in Proposition 98 led to the state policy of funding to the minimum level, and discouraged extra funding to the schools. The ratcheting effect can be avoided by using a base for the minimum amount other than the prior year funding level. For example, combining the Proposition 98 three tests into a single test which guarantees an amount equal to a fixed percentage of a seven year moving average of state revenue would gradually smooth the high and low funding

years. Endowment funds use this technique to stabilize the yearly withdrawals from a stock and bond portfolio which is subjected to constant stock market volatility. See Williamson (1993).

(b) The implementation problems encountered by the state was the source of litigation in *CTA v. Gould*. It resulted from inadequate drafting of the guaranteed minimum tests in Proposition 98, which failed to specify a determination date on which all the variables are fixed and the minimum calculated. This type of language is found in minimum contribution provisions for funding pension plans in the Internal Revenue Code. See Internal Revenue Code, Sec. 416. In the case of Proposition 98, the natural determination date would be the end of the prior fiscal year, not the end of the current fiscal year as actually implemented. Even without specific constitutional provisions the state probably could have legislated such a determination date as part of the statutory implementation. For example, the court in *CTA v. Hayes* permitted the state quite a bit of discretion in interpreting Proposition 98 language.

(c) The importance of defining key terms is illustrated in *CTA v. Hayes*. The targeted beneficiaries, the "schools," should be clearly defined without being overly restrictive. For example, the inclusion of charter schools, and not just school districts, is needed in many states. The law generally construes the term "education" very broadly. "It comprehends not merely the instruction received at school or college, but the whole course of training; moral, religious, vocational, intellectual, and physical." *CTA v. Hayes*, p. 1528 quoting Black's Law Dictionary (5th ed. 1979) p. 461.

2. Reserve. Another technique for stabilizing the funding of educational institutions, such as universities, is the development of an endowment fund. If the state establishes a similar fund, called a reserve, then in the long-term it will help relieve the funding pressure placed on current revenues and make the funding less dependent on the condition of the state's economy. California was fortunate that when Proposition 13 went into effect and the state had to provide aid to the local governments, it had a large state reserve. Annual state contributions to the reserve should be mandated, otherwise it probably will never grow to a size capable of being any benefit. An independent board of trustees should also be appointed to manage the reserve.

3. Accountability. Since the imposition of full state funding places a heavy burden on state resources, there will be a demand for efficient use of the funds. This may involve some form of accountability by the districts for the funds received. Proposition 98 contains such a provision, and the title of the proposition, "The Classroom Instructional Improvement and Accountability Act," recognizes the perceived importance of accountability to the voters.

The state will have to require evidence of productive use of its funds by the local districts. Extra funding as a reward for increased "productivity" can also be built into the state funding formula. However, the danger of micro-managing the schools by the state must be avoided. Alternatives to the established public school system, such as charter schools and even vouchers, will have to be studied as possible avenues of reducing the cost to the state of funding public education.

CONCLUSIONS

Several conclusions can be derived from California's recent experience with the full state funding of its public schools.

(1) State tax revenue is perceived as an unstable source of school finance funding. In California, this perception led to the minimum funding formula contained in Propositions 98 and 111.

(2) Minimum funding formulas are complicated to design, and may be ineffective and inefficient in a state political environment. The cases of *CTA v. Hayes* and *CTA v. Gould* provides some examples of many effective political economic threats to public education funding.

(3) Full state funding of public schools will result in apparent, and actual, loss of local control over school operations. The loss of local control over school financing has important consequences to every school district. As a result of the loss of the power to raise school operating funds locally, budgeting and labor negotiations will be perceived as a zero-sum game: what someone gains, someone else loses. If school funding is dependent on a fluctuating state economy, school boards will be reluctant to increase any recurring and fixed budgetary line item, such as teachers' salaries. This leads to labor unrest that cannot be satisfactorily resolved at the local level.

Several questions are raised about the consequences of full state funding from this examination of the California experience. What mechanisms, political or legal, can stabilize the funding of public education? How much power does any local school board have if the state determines its funding through annual general and categorical grants? How can district teachers unions organize to respond to a district that cannot increase or reallocate its fixed funding to meet demands for increased teacher salaries?

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